

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA SEA GRANT CONSORTIUM
CHARLESTON, SOUTH CAROLINA

For The Year Ended June 30, 2006

State of South Carolina



Office of the State Auditor

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June 11, 2007

The Honorable Mark Sanford, Governor
and
Members of the Board of Directors
South Carolina Sea Grant Consortium
Charleston, South Carolina

This report on the application of agreed-upon procedures to the accounting records of the South Carolina Sea Grant Consortium for the fiscal year ended June 30, 2006, was issued by The Hobbs Group, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

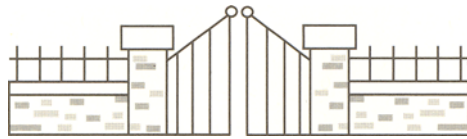
A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

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CHARLESTON, SOUTH CAROLINA
For the Year Ended June 30, 2006

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

May 18, 2007

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor, Board of Directors and management of South Carolina Sea Grant Consortium (*"the Agency"*), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2006, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations.
- We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

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Deputy State Auditor
May 18, 2007

- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$2,300 - earmarked fund and \$26,000 - federal fund) and ± 10 percent.
- We made inquiries of management pertaining to the agency's policies for accountability and security over permits, licenses, and other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. Non-Payroll Disbursements and Expenditures

- We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the agency's policies and procedures and State regulations, were bona fide disbursements of the South Carolina Sea Grant Consortium, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$8,300 - general fund, \$3,200 - earmarked fund and \$33,000 - federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. Payroll Disbursements and Expenditures

- We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements and processed in accordance with the agency's policies and procedures and State regulations.

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- We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the agency's policies and procedures, that employee's first and/or last paycheck was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$5,000 - general fund and \$10,000 - federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Personnel and Payroll in the Accountants' Comments section of this report.

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the agency's policies and procedures in accordance with the agency's policies and procedures and State regulations.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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5. General Ledger and Subsidiary Ledgers

- We inspected selected entries and monthly totals in the subsidiary records of the South Carolina Sea Grant Consortium to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and selected entries were processed in accordance with the agency's policies and procedures and State regulations.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. Reconciliations

- We obtained all monthly reconciliations prepared by the South Carolina Sea Grant Consortium for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountants' Comments section of this report.

7. Appropriation Act

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the South Carolina Sea Grant Consortium and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

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Deputy State Auditor
May 18, 2007

9. Schedule of Federal Financial Assistance

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the South Carolina Sea Grant Consortium and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of the procedures is presented in Schedule of Federal Financial Assistance in the Accountants' Comments section of this report.

10. Status of Prior Findings

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Sea Grant Consortium resulting from their engagement ended June 30, 2004, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the years ended June 30, 2004 and 2005.

We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor, the South Carolina Office of the State Auditor, Board of Directors and the management of the South Carolina Sea Grant Consortium and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

The Hobbs Group, PA

ACCOUNTANTS' COMMENTS

SECTION A – VIOLATION(S) OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

PERSONNEL AND PAYROLL

We tested the Agency's compliance with its internal control procedures and laws and regulations affecting personnel and payroll practices. During our test of payroll, we noted the following deficiency. The Agency had an employee transfer to another agency during the year. The employee remained on the payroll under dual employment working after-hours and on weekends until a replacement was hired and trained. The employee was paid an hourly rate for time worked as dual employment. The actual rate at which the employee was paid did not agree to the requested and approved rate of pay by the Division of Human Resource Management, which resulted in an overpayment to the employee. Section 8-11-30 of the South Carolina Code of Laws prohibits a person from receiving or a State employee from paying monies not due to employees.

We recommend that the Agency implement policies and procedures to ensure that amounts paid for dual employment are in agreement to the requested and approved amounts stated in the dual employment contract.

RECONCILIATIONS

During our testing of reconciliations, we found that the reconciliations for fiscal months 11, 12 and 13 were not prepared. Because the Agency did not reconcile its accounting records to the Comptroller General's STARS reports the Agency could not be assured that its accounting transactions were properly processed and recorded in the State's accounting system (STARS). If errors did occur during processing then they remained unresolved at year-end.

We recommend that the Agency review its policies and procedures with accounting staff to ensure that the reconciliations are prepared monthly as required by State Regulations.

SECTION B – OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We tested the Agency's preparation of the Schedule of Federal Financial Assistance (SFFA) in accordance to the State Auditor's letter of instructions. During this test we noted the following deficiencies:

1. The Pass-thru grants were not identified as such on the SFFA and also did not identify the federal source of the Pass-thru grant.
2. Amounts reported on the SFFA did not agree to the general ledger or the Comptroller General's STARS reports.
3. The schedule prepared by the Agency contained formula errors and was not mathematically correct in reporting grant totals.

We recommend the Agency evaluate their policies and procedures for the preparation of the SFFA to ensure the information presented is in agreement to the preparation instructions, general ledger and is mathematically correct prior to distribution to other parties.

SECTION C – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Sea Grant Consortium for the fiscal year ended June 30, 2004, and dated July 1, 2005. No procedures were applied to the Agency's accounting records and internal controls for the year ended June 30, 2005. We determined that the Consortium has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA SEA GRANT MANAGEMENT RESPONSE TO FY06 AUDIT

SECTION A -VIOLATION(S) OF STATE LAWS, RULES OR REGULATIONS

PERSONNEL AND PAYROLL

The South Carolina Sea Grant Consortium has implemented policies and procedures to ensure that amounts paid for employees are consistent and approved. The dual employment discrepancy was human error and we have taken every precaution to ensure an error in pay rate does not occur again.

Reconciliations

The policies have been reviewed with the accounting staff and all reconciliations will be prepared on a monthly basis as required by State regulations in the future.

SECTION B -OTHER WEAKNESS

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The South Carolina Sea Grant Consortium will ensure that the SFFA identifies the federal source(s) of the Pass-thru grants administered by the Consortium.

The amounts reported on the SFFA which did not agree to the general ledger or the Comptroller's STARS report were due to human error and the turnover the Consortium experienced during FY06. The Consortium was without an accountant from fiscal month 4 to fiscal month 11 during FY06. The SFFA will be prepared according to preparation instructions in the future.

When the SFFA was prepared by the accountant, he was asked to revise the additions and deductions portion of the report. The formula error occurred during this revision and the Consortium will ensure that the error(s) are not repeated in the future.